

**REPORT OF THE AUDIT OF THE
MORGAN COUNTY
CLERK**

**For The Year Ended
December 31, 2007**

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The Honorable Tim Conley, Morgan County Judge/Executive
Honorable Randy Williams, Morgan County Clerk
Members of the Morgan County Fiscal Court

Independent Auditors' Report

We have audited the accompanying statement of revenues, expenditures, and excess fees – regulatory basis of the County Clerk of Morgan County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Audit Guide For County Fee Officials* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2007, in conformity with the regulatory basis of accounting as described in Note 1.

The Honorable Tim Conley, Morgan County Judge/Executive
Honorable Randy Williams, Morgan County Clerk
Members of the Morgan County Fiscal Court

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2008, on our consideration of the Morgan County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

2007-1 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

2007-2 The County Clerk Should Request The Maximum Deputies' Salary Amount From The Fiscal Court

2007-3 The County Clerk Shall Provide His Settlement To The Fiscal Court By March 15

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Morgan County, Kentucky and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan -Franklin, LLC

July 16, 2008

MORGAN COUNTY
RANDY WILLIAMS, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

MORGAN COUNTY
 RANDY WILLIAMS, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007

Revenues

State Fees for Services	\$	5,744
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Fiscal Court		7,644
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	471,349
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Usage Tax		839,377
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Tangible Personal Property Tax		855,927
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Other-

Fish and Game		10,206
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Marriage		4,472
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Affordable Housing Trust		15,264
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Deed Transfer Tax		14,942
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Delinquent Tax	400,099	2,611,636
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts		8,276
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Real Estate Mortgages		14,994
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Chattel Mortgages and Financing Statements		41,597
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Powers of Attorney		540
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All Other Recordings		20,492
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Charges for Other Services-

Candidate Filing Fees		100
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Copywork	2,087	88,086
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Other:

Title Applications		4,400
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Returned Checks		2,800
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Miscellaneous		8,857
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Interest Earned	1,254	17,311
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Total Revenues		2,730,421
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The accompanying notes are an integral part of this financial statement.

MORGAN COUNTY
 RANDY WILLIAMS, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 327,182	
Usage Tax	813,248	
Tangible Personal Property Tax	305,328	

Licenses, Taxes, and Fees-

Fish and Game	9,835	
Delinquent Tax	45,435	
Legal Process Tax	12,529	
Marriage Licenses	1,813	
Affordable Housing	15,252	\$ 1,530,622

Payments to Fiscal Court:

Tangible Personal Property Tax	50,427	
Delinquent Tax	22,284	
Deed Transfer Tax	13,952	
Office Expense	13,727	100,390

Payments to Other Districts:

Tangible Personal Property Tax	465,935	
Delinquent Tax	232,340	698,275

Payments to Sheriff 3,617

Payments to County Attorney 59,611

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 140,208

Employee Benefits-

Employer's Share Social Security 46,003

Contracted Services-

Telephone 3,939

Printing and Binding 2,374

The accompanying notes are an integral part of this financial statement.

MORGAN COUNTY
 RANDY WILLIAMS, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay (Continued):

Materials and Supplies-		
Office Supplies	\$	10,406
Other Charges-		
Conventions and Travel		2,639
Dues		500
Refunds		10,966
Returned Checks		3,126
Postage		3,458
Training Incentive		3,387
		<hr/>
Total Expenditures		2,619,521
		<hr/>
Net Revenues		110,900
Less: Statutory Maximum		71,118
		<hr/>
Excess Fees		39,782
Less: Expense Allowance		3,600
		<hr/>
Excess Fees Due County for 2007		36,182
Payments to Fiscal Court - February 5, 2008		36,182
		<hr/>
Balance Due Fiscal Court at Completion of Audit	\$	0
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The accompanying notes are an integral part of this financial statement.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Morgan County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county clerk and the depository institution, signed by both parties, that is; (a) in writing; (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee and; (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County Clerk's deposits may not be returned. The County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of August 31, 2007 and December 31, 2007, the County Clerk's deposits were covered by FDIC insurance and a properly executed collateral security agreement.

Bank Balance At 12/31/2007	\$ 111,374
Less: FDIC	(100,000)
Collateral*	<u>(297,612)</u>
Total	<u>\$ (286,238)</u>

*Pledged securities held by a third party bank in the county officials name.

MORGAN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 4. Lease

In February of 2005 the Morgan County Clerk's office committed to the following lease agreement. The future minimum lease payments as of December 31, 2007 for these leases are as follows:

<u>Item Purchased</u>	<u>Monthly Payment</u>	<u>Term Of Agreement</u>	<u>Ending Date</u>	<u>Principal Balance December 31, 2007</u>
Copiers	\$ 182	60 months	March 2010	\$ 4,097

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Tim Conley, Morgan County Judge/Executive
Honorable Randy Williams, Morgan County Clerk
Members of the Morgan County Fiscal Court

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statement Performed In Accordance With *Government Auditing Standards*

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Morgan County Clerk for the year ended December 31, 2007, and have issued our report thereon dated July 16, 2008. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Morgan County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Morgan County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations as item 2007-1 to be a significant deficiency in internal control over financial reporting.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards* (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency 2007-1 to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Morgan County Clerk's financial statement for the year ended December 31, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2007-2 and 2007-3.

The Morgan County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Morgan County Fiscal Court, and the Department For Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan -Franklin, LLC

July 16, 2008

MORGAN COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

December 31, 2007

INTERNAL CONTROL – MATERIAL WEAKNESS:

2007-1 The County Clerk's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

During our review of internal controls over receipts, we noted that the County Clerk and each deputy collects money but does not use a single cash register and drawer; the County Clerk or the chief deputy prepares the daily checkout sheet and bank deposit; the County Clerk or a deputy takes the deposit to the bank; the part-time deputy clerk has access to cash and prepares the monthly bank reconciliation, posts the daily checkout sheet to the ledger, and prepares all financial reports; the County Clerk reviews all reports prepared by the deputy clerk. Evidence of controls was not found during audit procedures. We recommend the County Clerk segregate duties or implement the following compensating controls over receipts:

- The County Clerk should recount the daily bank deposit prepared by another employee and compare the deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. This could be documented by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- Document surprise cash counts by the County Clerk.
- County Clerk should agree daily AVIS computer totals to receipts for usage tax, license fees, and tangible personal property taxes, documented by initialing the AVIS documents.
- County Clerk should reconcile other monthly reports to source documents and the receipts and disbursements ledgers, documented by initialing the monthly reports, source documents, and the receipts and disbursements ledgers.

The County Clerk, chief deputy, and deputy clerk prepare, sign, and mail all checks except for payroll disbursements. The deputy clerk posts all the disbursements to the ledger. No compensating controls exist over this area. We recommend the County Clerk segregate duties or implement the following compensating controls over disbursements:

- Two people, one being the County Clerk, should sign all checks.
- The County Clerk should examine checks prepared by the deputy clerk and compare to supporting documentation. This could be documented by initialing the supporting documentation.
- The County Clerk should review the monthly bank reconciliation prepared by the deputy clerk and compare the balance in the ledgers to the balance in the checkbook. Any differences should be reconciled. This could be documented by initialing the bank reconciliation and the balance in the checkbook.

County Clerk's Response: I do check all receipts and disbursements ledgers against all monthly and daily reports. I will initial them in the future – We now have checks that require two signatures.

MORGAN COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

December 31, 2007

STATE LAWS AND REGULATIONS:

2007-2 The County Clerk Should Request The Maximum Deputies' Salary Amount From The Fiscal Court

According to KRS 64.530, in the case of officers compensated from fees, or partly from fees and partly by salary, the fiscal court shall fix the maximum compensation that any officer, except the officers named in KRS 64.535(i.e., county judge/executives, county clerks, jailers operating full-service jails, and sheriffs), may receive from both sources. The fiscal court shall fix annually the maximum amount, including fringe benefits, which the officer may expend for deputies and assistants, and allow the officer to determine the number to be hired and the individual compensation of each deputy and assistant.

We recommend that the County Clerk request the maximum deputies' salary amount be set by the fiscal court.

County Clerk's Response: I present my budget to the fiscal court for approval that includes the deputy's salaries but did not specifically request the court to set the limit.

2007-3 The County Clerk Shall Provide His Settlement To The Fiscal Court By March 15

Per KRS 64.152 the county clerk shall provide to the fiscal court by March 15 of each year a complete statement for the preceding calendar year of all funds received by his office in an official capacity or for official services, and of all expenditures of his office, including his salary, compensation of deputies and assistants, and reasonable expenses. During our audit we noted that the Morgan County Clerk did not comply with this KRS.

We recommend that the County Clerk comply with KRS 64.152 in the future.

County Clerk's Response: The settlement was presented by March 15 but the court did not make a motion to accept until a later special meeting due to oversight – it was then acknowledged in June 08 that I had presented it on time.